

Message Text

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PAGE 01 RANGOO 03204 01 OF 02 201107Z

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FM AMEMBASSY RANGOON
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LIMITED OFFICIAL USE SECTION 1 OF 2 RANGOON 3204

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SUBJ: GUB ECONOMIC REFORMS: IBRD MISSION

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(D) RANGOON A-67

SUMMARY

IN DISCUSSIONS WITH EMBASSY OFFICERS, A RECENT IBRD MISSION EXPRESSED SATISFACTION WITH GUB IMPLEMENTATION OF ECONOMIC REFORMS. AS EVIDENCE OF GUB INTENTIONS TO IMPLEMENT REFORM MEASURES, MISSION MEMBERS CITED PLANS TO RAISE OFFICIAL PRICES ON ANUMBER OF COMMODITIES TO COVER ADDED COSTS OF THE NEWLY ENACTED COMMODITIES AND SERCIES TAX (CST). MISSION MEMBERS SAID THEIR TALKS WITH GUB FINANCIAL OFFICIALS ERASED ANY DOUBTS THEY MAY HAVE HAD REGARDING THE GUB'S INTENTION TO FULLY IMPLEMENT THIS TAX BY PASSING ON ITS EFFECTS IN THE FORM OF HIGHER OFFICIAL PRICES. THEY SEEMED TO FEEL THIS LAW AND OTHER REFORMS ARE WORKING AS INTENDED TO BRING ABOUT GREATER REVENUE EARNINGS AND DE FACTO PRICE ADJUSTMENTS.

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PAGE 02 RANGOO 03204 01 OF 02 201107Z

THE EMBASSY DOES NOT FULLY CONCUR WITH THE CONCLUSIONS
THE MISSION EXPRESSED TO US. WE NOTE THAT GUB PRICING

POLICY CHANGED JUST PRIOR TO THE ARRIVAL OF THE IBRD MISSION; MOST PROMISED PRICE INCREASES HAVE NOT YET MATERIALIZED; AND ONE EXAMPLE CITED BY THE MISSION AS EVIDENCE THE CST IS WORKING AS INTENDED, AN INCREASE IN OFFICIAL RICE PRICES, CANNOT BE CONSIDERED A CONSEQUENCE OF THE NEW TAX. IN OUR OPINION THE GUB SEEMS TO BE SLOWLY AND GRUDGINGLY IMPLEMENTING REFORMS ONLY AS THE RESULT OF EXTERNAL PRESSURE. WE ALSO FEAR MISSION MEMBERS MAY HAVE GIVEN GUB OFFICIALS THE IMPRESSION THAT PRESENT MEASURES ARE WORKING SO WELL THERE IS LITTLE IMMEDIATE NEED TO PRESS FOR FURTHER ECONOMIC REFORMS. END SUMMARY.

1. A WORLD BANK MISSION VISITED BURMA LAST MONTH TO EVALUATE THE EFFECTS OF RECENT GUB ECONOMIC REFORMS AND PREPARE FOR THE UPCOMING TOKYO CONSULTATIVE GROUP MEETING. IN TALKS WITH EMBASSY OFFICERS THE MISSION MEMBERS EXPRESSED OPTIMISM ABOUT THE EFFECTS OF RECENT ECONOMIC REFORMS, PARTICULARLY THE COMMODITIES AND SERVICES TAX (REF C). IN GENERAL THEY SEEMED TO FEEL THE GUB WAS PROPERLY IMPLEMENTING REFORMS AND THAT THESE REFORMS WOULD BEGIN TO HAVE A VERY BENEFICIAL AFFECT ON THE COUNTRY'S ECONOMIC PERFORMANCE IN THE NEAR FUTURE. THEY STRESSED THE EXPRESSED GOOD INTENTIONS AND GOOD FAITH OF GUB OFFICIAL IN CARRYING OUT REFORMS AND IN ADOPTING MORE PRAGMATIC ATTITUDES. MISSION MEMBERS PASSED THIS ASSESSMENT ON TO OTHER INTERESTED EMBASSIES, UNDP AND A VISITING MISSION FROM THE ASIAN DEVELOPMENT BANK.

2. THE IBRD MISSION BASED ITS OPTIMISTIC ASSESSMENT MAINLY ON THE IMPLEMENTATION OF THE NEW COMMODITIES AND SERVICES TAX. MISSION MEMBERS ADMITTED THAT PRIOR TO THEIR VISIT THEY HAD BEEN CONCERNED THAT THE INTENDED AFFECT OF THE NEW TAX WOULD BE NEGATED BY A GUB ORDER THAT STATE ECONOMIC ENTERPRISES (SEE'S) WERE TO ABSORB THE TAX RATHER THAN PASS IT ON. THIS CONCERN WAS NOTED IN RECENT IBRD AND IMF REPORTS ON BURMA'S ECONOMY. HOWEVER, AFTER THEIR ARRIVAL MISSION MEMBERS CLAIMED LIMITED OFFICIAL USE
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PAGE 03 RANGOO 03204 01 OF 02 201107Z

THEY FOUND THE SITUATION TO BE MUCH BETTER THAN THEY HAD ANTICIPATED. THE GUB, THEY SAID, NOT ONLY PLANS TO PASS ON THE TAX BUT IN MANY CASES OFFICIAL PRICE LEVELS ARE TO RISE FAR MORE THAN THE ADDED TAX COST. GUB FINANCIAL OFFICIALS EXPLAINED THAT TALK OF SEE'S ABSORBING THE TAX WAS ALL THE RESULT OF A MISUNDERSTANDING BY CORPORATION MANAGERS. THESE MANAGERS WERE SO USED TO THE OLD SYSTEM WHICH FORBADE OFFICIAL PRICE INCREASES UNDER ALMOST ANY CIRCUMSTANCES THAT THEY MERELY ASSUMED THE TAX WAS TO BE ABOSRBED.

SHORTLY BEFORE THE MISSION ARRIVED THE MINISTRY OF PLANNING AND FINANCE MADE CLEAR TO ALL SEE MANAGERS THAT THE TAX WAS TO BE FULLY PASSED ON. MISSION MEMBERS SAID THEY WERE GREATLY RELIEVED TO HEAR THIS. AS EVIDENCE OF THE NEW POLICY, THEY CITED GUB PLANS TO RAISE OFFICIAL RETAIL PRICES OF RICE BY ABOUT 16 PERCENT; CERTAIN DRUGS AND PHARMACUTICALS ARE TO GO UP BY MORE THAN ACTUAL TAX COSTS; AND THE PRICES OF PETROLEUM PRODUCTS HAVE ALREADY BEEN INCREASED TO COVER TAX COSTS.

3. MISSION MEMBERS WERE LESS OPTIMISTIC ABOUT FURTHER ECONOMIC REFORMS BEING ENACTED BY THE OCTOBER SESSION OF THE PEOPLE'S CONGRESS. THEY HAD HEARD THAT SOME SORT OF GUARANTEE AGAINST FURTHER NATIONALIZATION MIGHT BE PASSED TO ENCOURAGE THE PRIVATE SECTOR, BUT THEY DID NOT FEEL THE GUB WOULD REDUCE ITS RESTRICTION AGAINST PRIVATE FOREIGN INVESTMENT. HOWEVER, JUDGING FROM WHAT THEY TOLD US, THEY SEEMED QUITE SATISFIED WITH WHAT HAD BEEN DONE AND PROBABLY PASSED ON TO GUB OFFICIALS THE IMPRESSION THAT NO FURTHER REFORMS ARE NECESSARY AT THIS TIME TO INFLUENCE THE OUTCOME OF THE CONSULTATIVE GROUP MEETING.

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PAGE 01 RANGOO 03204 02 OF 02 201124Z

20

ACTION EA-09

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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IO-13 /102 W

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R 200821Z SEP 76

FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 2316

LIMITED OFFICIAL USE SECTION 2 OF 2 RANGOON 3204

4. COMMENT: BEHIND THE IBRD MISSION'S RATIONALE FOR THEIR OPTIMISTIC ASSESSMENT, WE SEE A BLIND FAITH IN THE ABILITY OF DPM U LWIN TO STEER THE REST OF THE GOVERNMENT TOWARD ECONOMIC ORTHODOXY ("THE PRAGMATISTS ARE ON THE ASCENDANT") AND THE EFFECTS OF VERY ARTICULATE PRESENTATIONS MADE BY DEPUTY MINISTER DR. MAUNG SHEIN. OUR OWN ASSESSMENT, TO DATE, IS MUCH LESS OPTIMISTIC. WE MIGHT ADD THAT WE SEEM TO BE IN THE MINORITY AS MANY OF OUR COLLEAGUES FROM FRIENDLY DIPLOMATIC MISSIONS IN RANGOON SEEM TO HAVE ACCEPTED THE IBRD ASSESSMENT AND GUB PROMISES AT FACE VALUE. OUR SKEPTICISM, HOWEVER, IS BASED UPON THE VERY FACTORS THAT THE IBRD PROFESSED TO FIND ENCOURAGING.

5. FIRST, THE GUB'S CLAIM THAT ABSORPTION OF THE COMMODITIES AND SERVICES TAX WAS DUE TO A MISUNDERSTANDING BY CORPORATIONS MANAGERS: THE ONE ASSUMPTION THAT CAN BE MADE ABOUT THE GUB'S OPERATIONS OF SEE'S IS THAT MERE MANAGERS DO NOT ACT ON ASSUMPTIONS; THEY ACT ONLY ON ORDERS. THE FACT IS THAT THE ORDER TO ABSORB THE TAX WAS ISSUED AND IT WAS RESCINDED SHORTLY BEFORE THE
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PAGE 02 RANGOO 03204 02 OF 02 201124Z

ARRIVAL OF THE IBRD MISSION, PERHAPS NOT BY COINCIDENCE. THE REASON FOR THE GUB'S CHANGE OF ATTITUDE COULD BE A GENUINE RECOGNITION, PERHAPS SPURRED BY THE RECENT COUP
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OT, THAT ECONOMIC REFORMS MUST BE IMPLEMENTED IF THE REGIME IS TO SURVIVE AND CERTAINLY IF IT IS TO OBTAIN ANY ASSISTANCE THROUGH THE CONSULTATIVE GROUP. MORE LIKELY, HOWEVER, THE GUB SIMPLY REALIZED THAT IT WOULD FOOL NO ONE WITH A PAPER REFORM. BOTH THE IBRD AND IMF HAD NOTED AND EXPRESSED CONCERN ABOUT IMPLEMENTATION OF THE TAX IN OFFICIALS REPORTS. AND MEMBERS OF THIS EMBASSY, IF WE MAY TAKE SOME CREDIT, TOOK PAINS TO POINT OUT IN PRIVATE CONVERSATIONS WITH RESPONSIBLE GUB OFFICIALS THAT ABSORPTION OF THE TAX WOULD NEGATE ITS INTENDED EFFECTS.

6. FURTHER, IF, AS WE STRONGLY SUSPECT, THE GUB ORDERED THE TAX PASSED ONLY TO AVOID EXTERNAL CRITICISM, IT CASTS SERIOUS DOUBT ON THE IBRD'S FINDING THAT THE GUB IS NOW ACTING IN GOOD FAITH TO CARRY OUT PRAGMATIC ECONOMIC REFORMS. IF EACH REFORM IS TO BE GRUDGINGLY ENACTED AND EVEN MORE GRUDGINGLY IMPLEMENTED, WE FIND NO EVIDENCE TO SUPPORT THE THEORY OF "GOOD INTENTIONS" BY THE GUB.

7. AS FOR THE PRICE INCREASES, OFFICIAL PRICES OF SOME

DRUGS AND PETROLEUM PRODUCTS HAVE RISEN, BUT RICE AND MOST OTHER ITEMS REMAIN AT THEIR FORMER LEVELS. THESE PRICES, HOWEVER, COULD BE RAISED IN THE NEAR FUTURE. IN THIS CONNECTION, WE FIND IT CURIOUS THAT THE IBRD MISSION SHOULD CITE A RISE IN THE RETAIL RICE PRICE AS EVIDENCE THAT THE COMMODITIES AND SERVICE TAX IS BEING PROPERLY IMPLEMENTED. PADDY AND RICE ARE AMONG THE GOODS SPECIFICALLY EXEMPTED FROM THAT TAX. ON THE OTHER HAND, IT MAY BE EVIDENCE THAT THE GUB NO LONGER INTENDS TO SUBSIDIZED RETAIL RICE PRICES AND IS PASSING ALONG HIGHER DISTRIBUTION COSTS.

8. AT ANY RATE NEARLY FIVE MONTHS HAVE ELAPSED SINCE ENACTMENT OF THE SAID TAX LAW, AND WE ARE HARD PRESSED TO NAME MORE THAN FOUR OR FIVE BASIC ITEMS WHOSE PRICES LIMITED OFFICIAL USE
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PAGE 03 RANGOO 03204 02 OF 02 201124Z

HAVE BEEN ADJUSTED AS A RESULT OF THE TAX. THIS, PERFORCE, REFLECTS ADVERSELY ON EITHER THE GUB'S INTENTIONS OR ITS CAPABILITIES.

9. FINALLY, EVEN ASSUMING THAT THE GUB WILL NOW BEGIN TO IMPLEMENT THIS TAX PROPERLY, WE ARE DISAPPOINTED BY SIGNS THAT THE IBRD SHOULD HAVE CONVEYED THE IMPRESSION THAT ENOUGH HAS BEEN ACCOMPLISHED AND OTHER REFORMS CAN WAIT. THIS ATTITUDE IS ENOUGH TO SLOW THE ALREADY GLACIAL PROGRESS OF ECONOMIC REFORM IN BURMA.
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